DIXON WILSON
CHARTERED ACCOUNTANTS

2014 Budget Update

30 March 2014

Note: This update was written on 30 March 2014. It is based on the government's proposals at that point in time which don't necessarily represent the final legislation. For that reason, no action should be taken based on this update without taking further advice.

INTRODUCTION

The government announced the 2014 Budget in March. In the year before the next General Election there were not many controversial surprises. The most welcome news perhaps was in relation to pensions, where a number of new changes were announced to increase the flexibility for individuals withdrawing from their schemes on retirement.

A summary of the main topics relevant to our clients is set out below, along with a reminder of several previously announced changes that will take effect from April this year.

INCOME TAX

DEFINED CONTRIBUTION PENSION SCHEMES

From April 2015, pensioners with defined contribution schemes will have a greater degree of flexibility in how they deal with their pensions on retirement and the requirement to buy an annuity will be removed. The 25% tax free lump sum will continue to be available, but pensioners will have three choices for the balance of their pension:

(i) To withdraw their entire pension on retirement which will be subject to income tax at their marginal income tax rates, rather than 55% as is currently the case;

(ii) To purchase an annuity; or

(iii) To flexibly drawdown benefits over time.

Pensioners with defined benefit pension schemes will not have the same flexibility, but consultations will be taking place to determine whether the rules could be extended.

PENSIONS FLEXIBILITY

From 27 March 2014, individuals will have greater flexibility when accessing their pension plans. The changes can be summarised as follows:

(i) The minimum income requirement to access flexible drawdown will be reduced to £12,000;

(ii) The capped drawdown limit has increased to 150% of an equivalent annuity;

(iii) The total pension wealth that an individual can have before they are no longer entitled to receive lump sums under trivial commutation rules will be increased to £30,000;

(iv) The small pots limit that can be taken as a lump sum regardless of total pension wealth, will rise to £10,000;

(v) Individuals will now be able to take three small personal pension pots as lump sum payments.

We expect more detail on the pension changes in the coming months. We would recommend that any clients concerned with these changes should speak to their pension advisers in the first instance.

NON-UK DOMICILED INDIVIDUALS

The government announced in the Autumn 2013 Statement that new measures will be put in place to prevent non-UK domiciled employees from avoiding tax by artificially dividing the duties of a single employment between a UK and an overseas contract. If certain new conditions are not satisfied, HMRC will 'deem' that one contract of employment exists and the employee will be taxed on that contract with effect from 6 April 2014. For non-UK domiciled individuals it will mean that overseas employment contracts will be subject to UK tax on an arising basis, rather than the remittance basis. This does not impact on the ability for such an individual to claim "overseas workday relief" in their first three years of UK tax residence.

PARTNERSHIPS

The Budget did not include any further changes to the new rules announced in the 2013 Autumn Statement which treat members of LLPs as employees where certain conditions are met. The final draft legislation (in relation to salaried members) was released on 7 March 2014, with the provisions taking effect from 6 April 2014 at which point, salaried members of LLPs will be chargeable Income Tax and Class 1 National Insurance Contributions under the Pay As You Earn Scheme. The new rules should therefore be considered carefully by all businesses operating through LLPs.

TAXATION OF UK PROPERTIES

STAMP DUTY LAND TAX (SDLT) & ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Finance Bill 2014 has reduced the 15 per cent rate of SDLT threshold on the acquisition of UK residential dwellings by certain corporate structures from £2 million to £500,000, effective from 20 March 2014.

Those who own UK homes worth more than £500,000 through corporate structure will need to carefully consider whether it remains appropriate in the long term.

From 1 April 2015 a new band will come into effect for properties caught within the ATED legislation. Those properties with a value between £1 million and £2 million will be subject to an annual charge of £7,000.

From 1 April 2016, a further new band will come into effect for properties worth between £500,000 and £1 million, the annual charge will be £3,500.

These rules continue to be primarily aimed at deterring individuals from holding their own homes through such structures. A number of reliefs apply for properties being developed or let to third parties.

For dwellings worth more than £500,000 which fall within the scope of ATED, then regardless of any reliefs that may apply, ATED returns will need to be completed on an annual basis.

CAPITAL GAINS TAX FOR NON-UK RESIDENTS

As announced in the Autumn 2013 Statement, legislation will be introduced to charge capital gains tax on future gains made by non-residents disposing of UK residential property. These changes will not take effect until April 2015, and information on how capital gains tax will be charged is expected soon.

BUSINESS TAX

CAPITAL ALLOWANCES

The annual investment allowance has been increased until the end of 2015 to £500,000 (after which time it returns to £25,000).

Enhanced capital allowances (which allow 100% first year allowances) in enterprise zones have been extended until 31 March 2020.

ENTERPRISE INVESTMENT SCHEME (EIS) AND SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

The Seed Enterprise Investment Scheme (SEIS) has been made permanent. This scheme encourages investment in start-up businesses through income tax and capital gains tax reliefs that are more generous than EIS reliefs.

The Government will be consulting on the need to accommodate the use of convertible loans for EIS and SEIS companies.

EIS AND RENEWABLE ENERGY

It was announced that companies claiming Renewable Obligation Certificates (ROCs) or Renewable Heat Incentive (RHI) subsidies will no longer be eligible for Enterprise Investment Scheme (EIS), Seed EIS or Venture Capital Trust (VCT) tax reliefs. The changes are expected to affect shares issued on or after the date of Royal Assent of the Finance Bill 2014 (expected in July 2014). These changes will primarily affect companies in the solar and wind sectors.

RESEARCH & DEVELOPMENT TAX CREDITS

Research and development tax credits for small and medium sized businesses increase to 14.5% from 11% from 1 April 2014. This relief enables loss-making businesses, who have no tax to pay, to convert their tax credit into a cash payment from HMRC.

ANTI-AVOIDANCE MEASURES

TAX AVOIDANCE SCHEMES

Finance Bill 2014 provides HMRC with the power to give notice to taxpayers who have used failed tax avoidance schemes to either amend their returns or settle their disputes with HMRC accordingly. Taxpayers who decide not to settle their case will risk a penalty.

Following consultation, further legislation will be introduced in Finance Bill 2014 to extend accelerated payment of tax to users of schemes disclosed under the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and to taxpayers involved in schemes subject to counteraction under the General Anti-Abuse Rule (GAAR). This means that the amount of tax in dispute will be held by HMRC while the dispute is resolved. These changes will take effect from Royal Assent to Finance Bill 2014.

DIRECT RECOVERY OF DEBTS

In a surprising announcement, HMRC will be given the authority to recover tax and tax credit debts of £1,000 or more directly from taxpayer's bank and building society accounts (including ISAs). This will only apply to those taxpayers that have been contacted multiple times by HMRC and have the means to pay. The individual will be left with a combined minimum balance of £5,000 across all bank accounts after the debt has been recovered. It is expected that the legislation will be included within Finance Bill 2015.

Dixon Wilson
22 Chancery Lane
London
WC2A 1LS

T: +44 (0)20 7680 8100
F: +44 (0)20 7680 8101
DX: 51 LDE

www.dixonwilson.co.uk
dw@dixonwilson.co.uk